

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 22
Subrecipient Monitoring

Introduction

1. This policy statement 22 establishes a monitoring approach for the State of Tennessee. The policy statement requires the monitoring of subrecipients that receive state and/or federal funds from state departments, agencies, and commissions (hereafter, referred to as state agency).

Applicability

2. This policy statement is applicable to all state agencies that award state and/or federal funds to subrecipients, as defined in paragraph 10, excluding colleges and universities.

Purpose of the Policy

3. The purpose of the policy is to establish a coordinated and centralized monitoring system that defines subrecipient monitoring and the required core monitoring areas; ensures monitoring of all subrecipients; and eliminates duplication of monitoring efforts.

Basis for Authority

4. The Commissioner of the Department of Finance and Administration, in consultation with the Comptroller of the Treasury, is required to establish guidelines for the evaluation by agencies of their systems of internal control as provided by *Tennessee Code Annotated*, Title 9, Chapter 18.

5. In addition, Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, requires the state to monitor activities of subrecipients and to ensure compliance with program and administrative requirements.

Implementation Guidance

6. The *Tennessee Subrecipient Monitoring Manual* issued by the Department of Finance and Administration, Resource Development and Support Division, provides guidance for monitoring activities in accordance with this policy.

Effective Date

7. The requirements of this policy are effective for the fiscal years beginning after June 30, 1998, and any grants/contracts issued which relate to such fiscal years.

Definition of Monitoring

8. Monitoring is the review process used to determine a subrecipient's compliance with the requirements of a state and/or federal program, applicable laws and regulations, and stated results and outcomes. Monitoring also includes the review of internal control to determine if the financial management and the accounting system are adequate to account for program funds in accordance with state and/or federal requirements.

Monitoring Staff

9. There should be a separation of duties for all monitoring staff to allow for independence and objectivity.

Definition of Subrecipients

10. A subrecipient is a non-federal entity that expends state and/or federal funds received from the state to carry out a state and/or federal program. There may be unusual circumstances or exceptions to the characteristics of subrecipients and vendors. In making the determination of whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. It is not expected that all subrecipient characteristics will be present. Judgment should be used in determining whether an entity is a subrecipient or a vendor. If the contractual relationship with the state meets the vendor criteria, then the state agency must ensure that the procurement, receipt, and payment for goods and services comply with laws, regulations, and the provisions of the contract.

To distinguish a subrecipient from a vendor, use the characteristics below from OMB Circular A-133, Section .210.

Subrecipient Characteristics	Vendor Characteristics
Determines who is eligible to receive state and/or federal financial assistance available through the program administered	Provides the goods and services to many different purchasers
Has its performance measured against whether the objectives of the state and /or federal program are met	Provides goods and services within normal business operations
Has responsibility for programmatic decision making	Operates in a competitive environment
Has responsibility for adherence to applicable state and/or federal program compliance requirements	Provides goods or services that are ancillary to the operation of the state and/or federal program
Uses state and/or federal funds to carry out a program of the state as compared to providing goods or services for a program of the state	Is not subject to compliance requirements of the state and/or federal program

11. Any entity meeting the subrecipient criteria will be subject to monitoring including private non-profit entities, for-profit entities, governmental entities, and state and local governments.

Monitoring Plan - General Rule

12. The plan should identify all subrecipients to be monitored, describe the risk criteria utilized to select and prioritize subrecipients for monitoring purposes, identify full-time equivalents dedicated to monitoring activities, and include a sample monitoring guide for each state and/or federal program. The guide represents minimum monitoring requirements.

13. All state agencies affected by the policy should utilize a risk-based approach for the selection of subrecipients to be monitored, unless specifically prohibited by state and/or federal program guidelines. The risk factors employed in the selection of the subrecipients to be monitored, should be determined by the state agency as deemed appropriate.

14. All state agencies affected by this policy must develop and submit an annual monitoring plan to the Department of Finance and Administration, Division of Resource Development for review, comment and approval by September 30, of each year, starting in 1998.

Core Areas

15. All monitoring activities undertaken by any state agency should include the core monitoring areas: activities allowed or unallowed; civil rights; allowable costs/cost principles; eligibility; matching, level of effort, and earmarking; program income; cash management; Davis-Bacon Act; equipment and real property management; period of availability of funds; procurement, suspension and debarment; real property acquisition and relocation assistance; reporting; and special tests and provisions. The core monitoring areas should be included in the monitoring guides.

Centralization and Coordination

16. The Department of Finance and Administration, Division of Resource Development and Support is the lead agency for the statewide monitoring system. The division will

design, implement, and manage a statewide coordinated monitoring system,

determine monitoring activities and staff to be consolidated and centralized,

provide monitoring services to other state agencies,

review, comment on and approve monitoring plans submitted by state agencies,

provide training and technical assistance on fiscal and program monitoring issues,

develop and maintain a subrecipient management information database.

Requirements for Reporting

17. Each affected state agency shall submit an annual report summarizing its monitoring activities to the Department of Finance and Administration, Division of Resource Development and Support by October 31 of each year, starting in 1999.

18. The Division of Resource Development and Support shall submit an annual report of monitoring activities of all subrecipients to the Commissioner of Finance and Administration and the Comptroller of the Treasury by November 30 of each year, starting in 1999.

Approved

Commissioner of Finance and Administration

I, John D. Ferguson, hereby approve this Policy Statement 22 of the Department of Finance and Administration, and as such agree with and authorize actions necessary to implement its requirements.

Signed: \s\ John D. Ferguson
John D. Ferguson, Commissioner

Date: 7/28/98

Approved:

Comptroller of the Treasury

I, William R. Snodgrass, hereby approve this Policy Statement 22 of the Department of Finance and Administration, and as such agree with and authorize actions necessary to implement its requirements.

Signed: \s\ William R. Snodgrass
William R. Snodgrass, Comptroller of the Treasury